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THE LEERING SHADOWS

By Harry Serwer

Despite the reassurances of tipster-savants that defense orders will soon -- very soon -- send securities into much higher grounds because of the inflationary pull, the stock market milled around for the first eighteen days of October.

Business was nervous. Questions were being asked: "Why isn't this fantastic defense spending stiffening my business?" "I don't seem to sell anything lately without taking a loss." "I am loaded with inventory and overhead -- but no cash." Retailers, on the other hand, were cynically saying: "I don't care how tough the government makes it for metals, or for any raw commodity, I can get anything shipped this week that I order this week -- and for less money than I paid six months ago." A tall statement in spots; but when a manufacturer must move merchandise, cost is not the determining factor -- cash is . . . or the easing up on inventory for fear of lower replacement prices.

Then on October 19, the New York World-Telegram-Sun reported, "after wallowing around for four hours, stock market traders suddenly got panicky and began to dump." The tape ran about six minutes late up to the run-off, and prices took a healthy dive. It was probably the worst day's loss since June, 1950. Brokers soothed their favorite customers -- on the long side, that is -- with, "You know, Joe, it's just a technical reaction."

The next day stock market prices took a further decline and over a million shares changed hands -- which is an abnormally large volume for a Saturday. And then came Black Monday, the 22nd, and it was "moider -- bloody moider".

What touched all this off? The papers said, "the worsening Far Eastern situation and the tax muddle". Both obviously contributed, though the tax muddle should have had an opposite effect. On October 18, the two houses of Congress hung the new tax bill on a hook, presumably to let it sputter until the next session. One branch said it was too high and the other said it was too low.

On the 19th, although a number of Congressmen had gone home to give the constituents a little of that pre-election Rockbound-Coast-of-Maine

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stuff, and others were already packing, they somehow got together, and in continuance of the hodge-podge mood which stamped the illogic of the bill in the first place, they compromised! They handled the bill as if it were a requisition for a dozen lollipops, cut off $41,000,000 and breathed a collective sigh of relief.

II

Since there wasn't enough drama in both the Far East situation and the last tax bill to touch off the market, what did? It was the nine-month report of the General Electric Company, released the same day; and it hit the market like a blockbuster.

Were the figures so bad? Don't be silly -- they were the best in GE's history. Yet, "they actually chilled traders in that stock". The GE sales volume had hit an all-time high ($1,694,084,000 for nine months -- an annual rate of $2.2 billion). The earnings (before taxes, that is) were another all-time high ($286,936,000 or 16 per cent on volume).

That, ostensibly, was a "bloated profit made by robbing the public" and as such, grist for the New Deal and union provocateurs. But actually, it was due to an enormous volume of sales as against a normal overhead. That's how earnings are figured.

Incidentally, bureaucrats and union economists will have some difficulty trying to convince sapient people that this profit was gotten by "exploiting workers and consumers". Television sets were a dime a dozen throughout the reported nine months and gave a horrible retail performance. Major electrical appliances were hard hit in the same period, registering bad volume losses at retail, and further embarassing the picture with rising inventories at both retail and wholesale levels.

You may be sure that large producers sharpened their pencils to meet manufacturing competition, as well as the retail store promotions encouraged by the Supreme Court's decision to outlaw fixed prices. No matter how desirable a trademark may be, no matter how much money is spent in advertising it, the public will not pay more for the product than what a comparative utility costs. Thus, the larger organization -- like GE -- with a large fixed overhead, is at a disadvantage in a falling market. It cannot meet the new conditions as readily as can the small fellow. Its trademark position gives it no advantage when people are shopping. Therefore, GE's 16 per cent profit in a tough retail year bespeaks better than commendable efficiency.

Of course, defense orders also had something to do with that profit -- again on the basis of volume running far ahead of the overhead ratio -- but that is another story worthy of another essay.

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Why then did such a good financial picture jolt the market? The answer: Taxes. The government reached down into the GE barrel and withdrew $201,000,000 as its cut of the first nine months; it needed this money very badly for this and that.

Very considerately, the government left the other $85,936,000 in GE's till for sinking funds, development and stockholders (who would -- in turn -- have to fork over to the tax collector a part of what they got). The union leaders will aim their diatribes at this windfall; GE did nothing to earn it -- except to dig up the business, procure the raw goods in a welter of government controls, produce the stuff, risk its capital, find new financing, build new plants, design new items or revise old ones to stimulate jaded civilian appetites and effect new economies to meet price competition.

So the split was 70-30, with GE getting the short end. Did GE deserve a better break? The answer is, No! Because it perversely sent its own chief to Washington to teach the bureaucratic "experts" how to get more plasma out of a carrot. GE should have known by now that if you lie down with dogs you must get up with fleas.

The traders in the stockmarket looked at that financial statement and said: there, but for the grace of a few days or weeks or months, goes GM, Chrysler, Westinghouse and the whole "blue chip" kaboodle; and their jittery fingers let a lot of stock slip. Why? Because the report augured smaller dividends and that, presumably, would adversely affect the prices of securities.

Since the figures were in the Washington cards, couldn't the traders anticipate them? Of course they could: but human nature being what it is, traders will often ignore inexorable mathematics when it points to bad news in the making, and prefer to wait until it is in print, hoping for some miraculous mitigation.

Now, if you will bring out your slide rule or midget comptometer you will get some sad conclusions from the GE statement. Despite the far greater volume and the far greater net profit -- before taxes, that is -- GE received for itself $26,000,000 less than in the similar 1950 period. That's 24 per cent less, and nothing to cheer about. What made it tougher was that GE had to lay away 105 per cent more money for taxes than it did in the similar 1950 period. And layaway tax money comes out of the cash till, no matter how big the inventory, how slow the accounts receivables and how insistent the union is on more retirement, vacation and other "fringe" benefits.

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That is why the hodge-podge October 19 tax boost of $5,691,000,000 will send more people to the barbituric phial. What is taken from the hide of individuals and corporations does not show up in consumer spending (the consumer now has a large backlog of saved dough and shows no signs of having earmarked it for shopping), or in investments, or in replacement of worn out machinery, or in modernization, or -- of all optimism! -- in expansion (except for defense work and on attractive amortization terms).

IV

But does the stock market depend solely on dividends as a price appreciation factor? No; but remember that the compiled average dividend rate of all stocks, good or bad, was 6.7 on or about October 1. Since this was more than twice the average bond yield, quite obviously dividends were a fulcrum in the recent stock price rise.

What about inflation as a market factor? It is the big factor; it is the long-term factor -- the inevitable factor; but it is <u>not</u> dramatic -- especially when the market reacts to day-by-day dramaturgy. You get some evidence of this when you call your broker and ask him about the market and he answers, "It's terrific -- it's shootin' right through the ceiling." But when you buy the paper that evening and look at the whole day's performance in retrospect, it's a little up and a little down. The difference is in the perspective; he watched it slowly unreel, and you saw it telescoped.

Therefore, the same traders who let stocks drop out of their jittery fingers on October 19 will soon telescope the whole picture and reiterate their faith in long-term inflation. For they will renew their understanding of an economic principle: the money which taxes withdraw from private income and business venture is automatically spent to weaken the whole economic picture; and as the economy of a country is weakened, the things which money buys must become stronger in value.

This is ABC, but it must be reduced to simple terms, traders being what they are. After all, when you buy a pair of pants and are forced to pay more for them this year than last year, nothing happened to the pants; something happened to the purchasing value of your money. Since the recent tax bill was only one dishonest slice of what they will take before 1952 is over, you may be sure that inflation will reflect itself further in stock price appreciation; because mushrooming inflation generates hedge-hopping.

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Not Merely Gossip *A Supplement to* Human Events Vol. VIII, No. 46

By Frank C. Hanighen November 14, 1951

THE TEST OF TAFT: Following the hugger-mugger of the Eisenhower visit, Taft stands in a stronger position in the race for nomination. Whether the story of Arthur Krock of the New York Times -- that Truman offered to back Ike for the Presidency on the Democratic ticket -- is true or not, it has had repercussions. GOP politicians have obviously turned more toward Taft as the reliable Republican leader. Pro-Eisenhower ranks have been confused, and the morale of Taft followers strengthened. Taft's own attitude seems firmer and more confident. And behind him looms the cloud-wreathed figure of MacArthur. But the convention is a long way off -- and the Senator must encounter further tests.

One test -- and perhaps the crucial one -- may not long be delayed. It was suggested in one story that Eisenhower might back Taft if the latter could find common ground with the General on the problem of the defense of Europe. At present, that seems most unlikely; but some of Ike's Eastern Republican supporters may prove more receptive to a rapprochement with Taft than is commonly suspected. One speculation in the past few days runs as follows: if Taft's drive to win delegates continues to show success and the General fails to declare himself, the GOP politicos may veer around. They might offer an Easterner for second place on the ticket with Taft -- if the latter would compromise on foreign policy.

In any case, the Taft entourage can hardly fail to be sorely tempted to settle with the Eastern internationalists of the GOP. But how would Taft himself respond? On no subject can the Senator be so passionately aroused in opposition to the Administration policy. Yet, he showed a disposition to compromise somewhat in the "troops for Europe" fight of last winter. And in his traditionally America First stand, he enjoys so few articulate allies -- a couple of prominent individuals in the Waldorf, a few newspapers, a few writers, no organizations -- to give him aid and backing. If pourparlers between Eisenhower and Taft friends develop, then, indeed, Taft will face has major test.

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DEATH FROM A DRAFT: Despite brave talk from Senator Duff, the Eisenhower boom may have caught a fatal cold from the whirlwind visit and departure of the General. One Senator from New England (where the folks are reputed to love the General) says Ike had better come out for the GOP nomination (that is, if he intends to) by January 1, 1952, or else. This Senator is Styles Bridges, oldest in service of GOP members of the Upper Chamber and veteran of many campaigns. Also the developing chilliness of the GOP politicos was shown in the A.P. poll of November 10, following the General's visit to Washington.

Indeed, Eisenhower's equivocal performance of last week has revived discussion, among political sages in the Capital, of the question: can anyone be drafted for a Presidential nomination? We recall the Vandenberg "draft" of 1948, the enthusiasm of some veteran correspondents who should have known better, and how the "draft" vanished as soon as the delegates arrived in Philadelphia. Some observers remember the drive to draft Governor Ritchie of Maryland in 1932 and of its hopeless failure; as well as the zealots who wanted to conscript Herbert Hoover in 1920 on any ticket.

Walter Trohan (our contributor, who is chief of the Chicago Tribune bureau in Washington) reports that backers of the drive to draft Ike fear their movement may die of ridicule because of Ike's political naiveté as shown last week. Trohan says these backers are studying morosely the rather close parallel between the General and a certain Admiral Dewey back in 1900. The hero of Manila Bay was widely ac-

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claimed by the populace of that day and was put forward as Presidential timber. Like Eisenhower, he at first said that nothing could induce him to run. But as the time for the 1900 nominating conventions rolled around, Dewey announced that he was willing to be drafted; but he indicated no party preference, leaving himself open to draft by either party, much as Eisenhower is apparently doing today. Within 24 hours, the "draft Dewey" boom collapsed amid much derisive laughter, and the Admiral's name disappeared from serious conversation about politics. In this case, history has bequeathed us a portent.

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BRITISH FINANCIAL CRISIS: In those Washington clubs where a Ph.D., a Phi Beta Kappa key and a Government job get a man past the admission committee, the boys are talking gravely and importantly of the terrific British financial crisis. In the press (which gets its news from above-mentioned boys), there is bated expectation that Churchill will arrive ere long to ask for a loan -- to save Britain again.

In short, everyone in this knowing Capital knows that Britain is in the throes of the biggest financial crisis of its history. But like so many other things everyone here knows, it is wrong.

The build-up, in preparation for Churchill's arrival, is not exactly in harmony with all the facts and figures. The truth is that while Britain does not at present enjoy a favorable financial condition (but when has she, in the past two decades?), it is very inaccurate to picture Britain as facing the ultimate in bankruptcy in the near future.

What are the facts? The level of gold and dollar reserves always registers the degree of fever on the financial thermometer. When these reserves sank to a low of about $1,340,000,000 in September, 1949, the Government devalued the pound. Next phase -- the reserves began to go up and June, 1951, found them at $3.8 billion.

However, the trend reversed itself: a descent commenced in the third quarter of this year and by September reserves had dropped about $600 million to $3,200,000,000. Quite a drop. But, as Mr. Gaitskell (then Chancellor of the Exchequer) explained, this reduction was in large part due to abnormal expenditures -- stockpiling and other unusual factors.

What is the situation today? Is the curve still downward? Probably, but not as much as the British would like us to believe. We have received an estimate for the fourth quarter reserves from an international financial organization which suggests that Britain will lose only half as much as in the third quarter, or about $300 million. If this should prove true, then reserves by the first of the year 1952 should be about $2.9 billion.

The figure of $2.9 billion is over twice the amount of reserves held by the British when they devalued in 1949, and about equal to the total reserves in late 1950 and early 1951, when the British were rather happy about their reserves position. In short, the immediate prospect offers no reason to shriek bankruptcy and run to Uncle Sam for money. Business economists here say there are ample reserves and plenty of time for Britain to grapple with her real problem.

For, the crisis of Britain is not -- as is being said -- a financial crisis at all. It is a crisis of Socialism. Its treatment must consist of drastic elimination of the various Socialistic measures which keep the United Kingdom in a state of chronic economic illness: abolition of controls, restoration of a competitive international trade position, reduction of taxes, pruning the budget, creation of incentives for hard work, etc. A handout to Churchill from the U.S. Treasury is not the solution.

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TAX FRONT: Employers are now (since November 1) required to collect more "soak the

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poor" taxes from their employees. The Internal Revenue Bureau had notified them to that effect some time before. However, the employees had also heard about their increased compulsory contributions for bigger (if not better) government and patriotically began demanding more money to pay it. These demands will grow louder as the outside of the envelope shows how much less it contains. The employers will meet the demands with sweet reasonableness if they can pass the cost on to the consumer, in higher prices. Most of them can, and will. Since the employee is the consumer, he will pay more for the things he makes.

So far, it's even Stephen. But, some producers will find the passing-on rather difficult. Book publishers, for instance. Reading is a marginal satisfaction. One can get along without it, and if one has to make a choice between a sandwich and a book, the sandwich will win out. That means that fewer books will be published, and some printers and binders will lose their jobs. Production will drop. What is true of books is true of beer, baseball and symphony concerts.

Then there are those who live on fixed incomes, and pensioners, and they will have to "absorb" the increases in prices due to higher taxes. Their "absorption" will consist of doing without. Less consumption means less production.

Any way you look at it, taxes are a deterrent to production. This is particularly true of what are presumably "soak the rich" taxes. Income taxes are really levies on capital -- or levies on what might have become capital. Graduated income taxes quite definitely discourage investment; what's the use of making more money if the more you make the more you lose? But, all income taxes have the same effect; the more the government takes, the less there is of savings for investment. The less the investment, the fewer the tools for the worker to use in production.

All taxes, then, directly or indirectly cut down the country's productive capacity. On the other hand, all taxes come out of production. As production drops, the "take" of the government drops. The government does not like that. Therefore, in January, when Congress reconvenes, Mr. Truman will simply have to ask for increased contributions to his bigger, if not better, government.

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A TRUMAN RECORD: "In all the 156 years from 1789 to April 30, 1945 -- including all but a few months of World War II -- the Federal Government took in taxes the sum of $248,348,394,590 from the American people. In six years from May 11, 1945 to June 30, 1951, the Federal Government under President Truman took a total of $260,417,309,430 from us." From the speech by Senator Harry Byrd at Selma, Ala., on November 1, 1951.

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CAMPAIGN STRATEGY: Senator Taft showed a sense of what GOP strategy should be, in a speech he made in New Orleans last week. He said that "it is not worth the time wasted to get after the independent vote". Pointing out that only a fraction of the eligible voters of the country actually go to the polls he said Republicans should seek the "uninterested vote".

These remarks are indicative of thinking among most of the GOP politicos today. Away with Dewey's strategy in '48, when the New York Governor tried to win "independent" voters in states long committed to the Democratic Party. Instead, the GOP candidate next year should try to bring back to the polls, in communities where conservative ideas prevail, those citizens who should vote Republican but who have not voted for at least three elections because they are completely disgusted with "me-too" candidates.

Some of these ideas are embodied in a highly interesting manuscript which we have read, entitled: "A Critical Study of the Problems Facing the Republican Party and its Candidate for President in 1952", by J. Harvie Williams and John Underhill. The thesis is that the strategy in 1940, 1944 and 1948 "was wrong, that it was directed at a section of the electorate already committed to the New Deal-Fair Deal

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opposition and that the me-tooism which dominated it served merely to alienate the area of traditional Republican strength. Careful analysis of voting throughout the nation shows that there was little if any increase in the Democrat vote outside the big cities in the 1948 Presidential election. It does show clearly, however, a substantial dropping-off in the normal Republican vote in these areas."

The authors point to the example of Iowa, won by Truman, but also electing all 8 Republican Congressmen who ran on conservative GOP platforms. And they remind us that 93 Republican House members ran ahead of Dewey in their districts.

To illustrate how the Republicans have a bed-rock strength in non-urban areas which promises well (if the proper campaign is conducted), the authors offer much statistical material. For instance, they show that the states (outside the South) with their 403 electoral votes now have in Congress 244 GOP Senators and Representatives. "If the present Republican representation of 244 in Congress", they say, "would be converted into electoral votes, only 22 would be needed to elect a President."

But where should votes be sought? The authors designate 3 areas: (1) the Middle West, Mountain and Pacific states; (2) the border states of Maryland, West Virginia, Kentucky, Missouri and Oklahoma where the population is essentially conservative -- and a majority of these states went Republican in 1904, 1908, 1920, 1924 and 1928; and, (3) the Solid South. The latter area, the authors say, can be won by a conservative candidate, although it is problematical whether it would go that way on the Republican ticket. They favor an approach of somewhat the same character as that suggested by Senator Karl Mundt.

This interesting survey is supported by profuse statistics and historical data. (Mr. Williams has been prominent in GOP politics in New York and Mr. Underhill was formerly a political writer on the staff of the New York Times.)

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GENERAL MELVILLE GOODRICH U.S.A.: The hero of John Marquand's current best-seller would be thoroughly at home in the Pentagon atmosphere today. Marquand gives an amusing picture of high officers in 1946-7 maneuvering to keep their "stars" and land bigger and better jobs in the post-war shuffle.

So, today, talk of Eisenhower retiring from Europe has stimulated the Pentagon to such vital defense problems as who gets what job, if Ike leaves Paris. Our Pentagon correspondent writes us:

General Omar Bradley would very much like to succeed Ike. God knows he deserves it in view of how hard he's worked for the Democratic Administration. But "Brad" has some worries. Who would succeed him as head of the Joint Chiefs of Staff? Collins? But everybody knows "Lightning Joe" hasn't enough brains, for either that place or the post of European commander. But if Joe Collins isn't to head JCS, an Air General, Vandenberg or Norstad, might get it. From Brad's "impartial" ground-force point of view, that would be calamitous.

Additionally, if Vandenberg headed the Joint Chiefs, he and the Navy might gang up on the Army. For Van is quite a politician. Didn't his uncle, the late Senator, teach him a thing or two and didn't said uncle get him his job as Air Chief?

Guess is that Brad will cling to his present job. But who, then, would take Ike's place? Well, there's talk that Matt Ridgway would be in line (and Max Taylor to succeed him in Tokyo). But, from Brad's point of view, Matt's a bit independent, something like his predecessor. Or Mark Clark? Well, the top boys don't like that idea; they were not unhappy when it seemed that Mark might be shelved in Vatican City. Mark's a bit independent of the old Marshall clique. Like that troublesome fellow, Al Wedemeyer. Well, as Marshal's old friends say -- or as General Melville Goodrich would put it -- we simply have to have a good "tight crowd".

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